

FY 2003 EXEMPT ORGANIZATIONS (EO) IMPLEMENTING GUIDELINES



The Mission of the Exempt Organizations Segment is to provide Exempt Organizations customers top quality service by helping them to understand and comply with applicable tax laws, and to protect the public interest by applying the tax law with integrity and fairness to all.

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FY 2003 IMPLEMENTING GUIDELINES

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Executive Summary

Exempt Organizations

FY 2003 Implementing Guidelines

The Implementing Guidelines provide direction on how resources will be applied to programs that support the major strategies and operational priorities of Exempt Organizations (EO). They identify emphasis areas for the major program areas within EO (Rulings and Agreements, Customer Education and Outreach, and Examinations).

KEY STRATEGIC INITIATIVES

The Exempt Organizations Division will pursue the following key strategic initiatives in FY 2003:

- Stabilizing the Examination and Determination Programs: We expect that early in FY 2003, the entire determination program will be transferred from Examinations to Rulings and Agreements. All remaining technical resources in EO Examinations will be dedicated to the examination program and customer education and outreach.
- Improving EO's Presence in the Community: We will improve EO's presence in the community by conducting more examinations using techniques requiring fewer resources, such as limited scope audits and office correspondence examinations; acquiring additional research materials; and transitioning from the current EO Coordinated Examination Program to the Team Examination Program. We will also conduct additional market segment studies and compliance projects on a national basis.
- Electronic Filing Initiatives: EO will continue to partner with Electronic Tax Administration (ETA), Large and Mid-Size Business (LMSB) and Modernization, Information Technology and Security Services (MITS) to develop Form 990 electronic filing.

CUSTOMER EDUCATION AND OUTREACH EMPHASIS AREAS

The Director, Customer Education and Outreach (CE&O), develops the strategic direction of the nationwide education and outreach programs.

- Workshops for Small and Mid-sized Exempt Organizations: During FY 2002, CE&O and EO Examinations (EO Exam) conducted a series of successful workshops for small and medium size exempt organizations in cities throughout the country. These workshops included guidance on a full range of tax issues relevant to these organizations. In FY 2003, CE&O will expand this program to increase the number of workshops offered, and support and streamline the planning and delivery of these conferences.
- "How-to" Workshop on Applying for Exemption: CE&O will expand its conference program in FY 2003 by adding separate workshops on applying for exempt status. CE&O will

discuss piloting these workshops in partnership with local state charity offices, working with the National Association of State Charity Officials (NASCO).

➤ Other Conferences:

- *Large Organization ISP Conferences/Seminars:* In FY 2002, EO held a conference on issues for large tax-exempt organizations. This pilot program informed attendees about issues identified in our examination and determination programs. In FY 2003, CE&O will work with Exam and Rulings and Agreements (R&A) to re-engineer and expand this program. Conference roll-out is likely in FY 2004.
- *IRS Tax Forums:* EO participated in the IRS Tax Forums for the first time in FY 2002. Six Forums were held throughout the country. At each Forum, EO presented an introductory workshop. Approximately 6,000 practitioners participated in these workshops. CE&O will continue this practice in the coming year.

➤ Publications: During FY 2003, CE&O will focus on the following publications:

- Introductory publications for exempt organizations:
 - *Applying for Tax-Exempt Status;*
 - *Filing and Record-keeping Requirements for Tax-Exempt Organizations;* and
 - *Required Disclosures for Exempt Organizations.*
- *Requirements for Exemption* -- short publications, addressing specific technical information unique to particular categories of tax-exempt organizations, used as inserts to other publications.
- *Donated Vehicles* – During FY 2002, EO and state charity officials drafted two brochures: One advises exempt organizations how to avoid problems raised by vehicle donation programs; the other advises vehicle donors of their responsibilities. CE&O will complete these brochures in FY 2003.
- *Should My Organization Apply for Tax Exempt Status?* – CE&O will complete this “beginner” brochure, which explains the “pros” and “cons” of exemption for 501(c)(3) organizations that are considering applying for tax exemption.
- *Do's and Don'ts for Exempt Organizations* – CE&O will prepare a brochure covering “basic” steps exempt organizations should take or avoid.
- Publication 3079, *Gaming Publication for Tax Exempt Organizations* – CE&O and R&A will finish revising this publication.

➤ Web-based Interactive Form 1023: CE&O will work with R&A to develop a Form 1023 application, as part of the TE/GE Determination System (TEDS), on the IRS Internet web site. This Internet application will establish an interactive method for filling out a Form 1023. While electronic filing of the form will not be available in the short-term, completing the application in such an environment will provide educational information resulting in an easier to prepare and process application.

➤ Life Cycle: We will begin to add the EO Life Cycle charts, developed by the Advisory Committee on Tax Exempt and Government Entities (ACT), to the EO portion of the Internet. These charts for charities and private foundations, and corresponding materials, will help customers access information in an easy and logical manner.

- Directed Communications/List Serve: Adopting another idea proposed by the ACT, CE&O will explore the idea of “directed communications” to our customer sub-segments using electronic delivery methods, such as a “list serve.”

RULINGS AND AGREEMENTS EMPHASIS AREAS

The Director, R&A, is responsible for planning, managing, directing, and executing nationwide activities for the EO Determinations, Rulings, and Technical Guidance programs. In FY 2003, R&A will conduct activities in the following areas:

- EO Guidance Program: EO’s objective is to increase the amount of guidance published in FY 2003. To accomplish this objective, R&A will work with TE/GE Counsel and the Treasury Department to develop and issue EO guidance items on the IRS/Treasury Priority Guidance Plan including guidance on joint ventures between exempt organizations and for-profit companies; guidance on section 501(c)(4) organizations; guidance on private foundation terminations; guidance on applying UBIT rules to the Internet activities of exempt organizations; regulations under section 529 regarding qualified tuition programs; and guidance on split interest trusts.
- Revision of Form 1023 and Instructions: The Cincinnati EO Determination Customer Satisfaction Team sponsored a revision of the Form 1023 to make the form more user friendly for applicants to complete and easier for agents to review.
- TEDS: R&A will take the lead on rolling out TEDS, which will replace the current determinations tracking system and allow for the full imaging of determination letter filings. EO will begin to release these images to the public as TEDS progresses.
- Federal/State Information Sharing: R&A will work with the states on a revised and invigorated information-sharing procedure to enhance information exchange within the bounds of Internal Revenue Code sections 6103 and 6104.
- Determination letter process: R&A staff will work with ACT members on a project to evaluate the efficiency and effectiveness of the current determination letter process and recommend appropriate changes.

EXAMINATION EMPHASIS AREAS

The Director, EO Exam, is responsible for planning and implementing nation-wide examination activities for EO. This year’s examination plan will continue to enhance IRS’s presence in the exempt organizations community. EO Exam will conduct the following specific programs in FY 2003:

- Market Segment Studies: Seven market segment studies will start in FY 2003. As appropriate, each study will be carried out in one or more phases (e.g., examinations of filed Form 990 returns, and examinations of small organizations that are not required to file Form 990). Of the seven studies, two will not use examinations as a primary tool for gathering data. We anticipate that studies will generally examine the following issues, as

appropriate: Foundation status, filing requirements, employment and unrelated business income tax, gaming and other fundraising, non-exempt activities, lobbying and political activity, inurement/private benefit, intermediate sanctions, organizational test, and public disclosure. We also will capture general demographic data to use in building market segment profiles.

The following market segment studies will begin in FY 2003:

- *Colleges and Universities* – We will gather compliance information from prior years' examination programs and other internal and external sources, which will represent a preliminary step in studying the college and university market segment.
- *Hospitals*: This study will gather compliance information from prior years' examination programs and other internal and external sources, and will represent a preliminary step in studying the hospital market segment.
- *Fraternal Organizations*: We will capture data on issues relating to fraternal organizations exempt under sections 501(c)(8) and 501(c)(10). This will augment a previous study of insurance provided by fraternal organizations and complete the profile of the fraternal organizations market segment.
- *Section 509(a)(3) Supporting Organizations*: After determining whether this is one or more segments, we will capture data on issues relating to supporting organizations. A key focus will be whether organizations appropriately claim section 509(a)(3) status under the "in-connection-with" rules.
- *Arts and Humanities Organizations*: We will capture data on issues relating to arts and humanities organizations described in section 501(c)(3) (e.g., museums, theater groups, arts groups, etc.).
- *Private Foundations*: After determining whether the study will require more than one sample (to adequately understand all facets of the segment), we will capture data on issues relating to private foundations. In addition to the above issues, study issues will include minimum distribution requirements, expenditure responsibility, program related investments, other Chapter 42 excise taxes, joint ventures, and scholarships. We will coordinate this project with new or on-going studies and compliance projects involving other grantmaking organizations, including community foundations, supporting organizations, and donor advised funds.
- *Elder Housing*: We will capture data on issues relating to elder housing, in particular, promoter or management company involvement and other private benefit and inurement issues.

➤ As in FY 2002, EO Exam will commission teams to study areas of concern. We will implement the following projects in FY 2003:

- *Consumer Credit Services* – Referrals indicate that some of these organizations may be acting in a commercial for-profit manner or as a part of a tax shelter promotion.
- *Group Rulings* – EO Exam and R&A will develop a strategy to improve compliance in a number of areas concerning group rulings.
- *Form 990 Revision*: A committee will integrate information from multiple groups working on aspects of Form 990 revision. Our goal is to redesign the Form 990 as a tool for EO Exam to identify compliance issues, and an informative document for contributors and the general public. To the extent possible, changes that can be made on a timely basis will be included in the Form 990 electronic filing initiative.

- *Housing and Urban Development (HUD)*: A coordinating committee will develop a strategy, to include examinations, to address the use of information received from HUD about possible private benefit or lack of exempt activity on the part of exempt organizations HUD has audited. The results may also help in designing a comprehensive study of low-income housing organizations.
 - *Disaster Relief Organizations*: We will continue monitoring organizations that registered or operated as disaster relief organizations in the wake of the terrorist attacks of September 11, 2001. The focus will be to ensure that organizations distributed funds in compliance with the Victims of Terrorism Tax Relief Act of 2001, that there was no private benefit or fraud, and that organizations are fulfilling their exempt purposes. The monitoring effort will include the review of Forms 990 and examinations.
 - *Compliance with rules on Foreign Grants and Distributions*: We will design a project to determine the extent and quality of controls employed by section 501(c)(3) organizations providing relief and other grants overseas.
 - *Section 527 Compliance*: EO is developing a strategic plan relating to compliance with reporting requirements by section 527 organizations. This plan will be implemented in FY 2003, taking into account legislative or judicial developments. The plan will include one or more examination studies.
- EO Exam will continue work on projects already underway in FY 2002. Projects that will continue include, but are not limited to:
- *Voluntary Compliance on Alien Withholding Program (VCAP)*: We will continue to conduct enforcement actions with respect to colleges and universities, focusing on nonresident alien withholding issues but also including other applicable employment tax issues. We will select one or more samples of organizations to determine compliance with these rules.
 - *Reporting of Fundraising Expenses*: In FY 2003, we will include one or more projects in which we will contact organizations that have taken certain contributions and expense positions on their returns (e.g., those with high contributions and relatively low fundraising expenses).
 - *Donated Property*: EO Exam will continue developing a strategy to address compliance issues with donation programs such as used car programs. In FY 2003, we will develop a project to utilize one or more state licensing databases to study the operations of organizations in this area.
 - *Intermediate Sanctions*: EO Exam will begin implementing recommendations of the coordinating committee formed to ensure consistent implementation of section 4958 and its regulations relating to excess benefit transactions. Among the projects to be implemented in FY 2003 is an examination project in which organizations will be contacted and asked to describe the process used to set compensation for certain individuals.
 - *Insurance Companies Described in Section 501(c)(15)*: A project team is implementing a plan designed to enhance compliance through Service activities in the areas of guidance, determinations, and examinations.

ATTACHMENT I

Planning Process

INTEGRATION OF BUDGET PLANNING WITH WORK PLANNING

The IRS strategic and planning process is designed to integrate resource allocation with strategic and program planning to determine the effective use of those resources. Within Tax Exempt and Government Entities (TE/GE) Division, each segment [Employee Plans (EP), Exempt Organizations (EO), Government Entities (GE) and Customer Account Services (CAS)] develops the following components:

- a) Strategy and Program Plan – The Strategy and Program Plan identifies specific trends, issues and problems (TIPs) and details the strategies that will be applied to address them. The Plan summarizes the operational priorities and improvement projects for each approved TIP and contains specific information about the scope and resource allocations proposed for the programs that support the major strategies, operational priorities, and improvement projects in each area.
- b) Implementing Guidelines and Plan (formerly known as Workplan Guidelines and Plan) – The Implementing Guidelines provide direction for preparing the fiscal year Implementing Plan of how resources will be applied to programs that support the major strategies and operational priorities of the Operating Division and segments. The Guidelines identify planned staff days/FTEs by budgetary categories (i.e., budget activity codes (BACs) and program activities codes (PACs)). The Guidelines also identify:
 - Activities within the Office of the Director, Exempt Organizations;
 - Tax Law Interpretation and Published Guidance activities;
 - Customer Education and Outreach Program emphasis areas and activities;
 - Rulings and Agreements Program emphasis areas, projected determination inventory, planned determination case closures, and planned technical activities closures; and
 - Examination Program emphasis areas and planned compliance activities.

These components are linked through a structural planning and budget layout of the following codes.

- **Budget Accounting Codes (BAC)** (Pre-filing Services, Filing and Account Services, Unit General Management and Administration, Compliance Services, Research and SOI)
 - **Program Accounting Codes (PAC)** (subcategories within each BAC)
 - **Activity Codes (AC)** (Technical Time and AIMS activity codes)
 - **Project Codes (PC)** (Technical Time and AIMS project codes)

EO performs activities in the following BACs and PACs:

BAC 21 – Prefiling Taxpayer Assistance & Education

PAC 1B – Tax Law Interpretation and Published Guidance

Activities under PAC 1B consist of providing interpretations of laws and procedures by developing and publishing guidance through news releases, announcements, notices, revenue rulings, and revenue procedures. Technical assistance is provided to Treasury on Regulations and proposed legislation, to Congress on new laws, and to Chief Counsel and other federal agencies. Technical assistance and guidance are provided to other Service employees through the publication of the annual Continuing Professional Education text. Activities under this PAC are primarily performed by employees located in the Washington, DC office.

PAC 1C – Taxpayer Communication and Education

Activities under PAC 1C consist of developing and delivering education and outreach programs to the exempt organizations community to promote voluntary compliance by assisting customers in understanding their tax responsibilities. This is accomplished through IRS and EO community sponsored conferences, seminars, speeches, panels, and workshops. Customer partnerships/liaisons and focus groups are also utilized to educate and communicate with the EO community. Published documents and websites are used for indirect communication with customers. Activities also include tax forms, publications, form letters, and form development. All exempt organization employees participate in education and outreach program activities.

PAC 1E – Rulings and Agreements

Activities under PAC 1E consist of processing determination letter requests from organizations seeking recognition of tax-exempt status. These activities are performed by the centralized determination processing site in Cincinnati, Ohio, assisted by employees located throughout the country.

Activities under PAC 1E also consist of providing pre-transactional rulings to specific requestors and issuing technical advice and technical assistance regarding exempt organizations. These activities are performed by employees located in the Washington, DC office.

BAC 22 – Filing and Account Services

PAC 2C – Account Management and Assistance – Electronic/Correspondence Assistance

Even though EO does not have management responsibility for employees assigned to this PAC, EO does provide support services and program assistance to Customer Account Services (CAS), the segment responsible for managing the program.

BAC 25 – General Management

PAC 5A – Unit General Management and Administration

Activities under PAC 5A consist of planning, managing, directing and executing nationwide activities for Exempt Organizations. Employees assigned to this PAC consist of the Director, Exempt Organizations, the Executive Assistant to the Director, and the Program Management Staff.

BAC 37 – Compliance Services

PAC 7G – Tax Reporting Compliance-Field Examinations

Activities under PAC 7G consist of developing the overall enforcement strategy and goals to enhance compliance consistent with overall TE/GE strategy. This includes implementing and evaluating EO examination policies and procedures, and monitoring and evaluating the quality and effectiveness of the Examination programs. Activities also include regulating and monitoring exempt organizations through examination of returns and other compliance efforts, with emphasis on assuring that exempt organizations continue to meet the statutory requirements for exemption and their other federal tax responsibilities, including employment taxes. Tax administration and enforcement activities are coordinated with other federal and state agencies.

MANAGEMENT INFORMATION REPORTS (MIRs)

The TE/GE Technical Time Reporting System (ETS) will be used to capture and monitor time application by EO technical, managerial, and some non-technical employees.

ETS Table 14 will follow the BAC and PAC structural layout as defined above. EO technical time activity codes and project codes have been aligned under the appropriate BAC and PAC. Exhibit A includes EO activity codes and project codes aligned under the appropriate BAC/PAC along with their definitions for FY 2003.

BALANCED BUSINESS MEASURES AND WORKLOAD INDICATORS

The IRS has worked to implement a system of balanced measures that includes employee satisfaction, customer satisfaction and business results. For FY 2001, balanced measures were implemented at the national level for TE/GE and other operating divisions and functional divisions. To realize the full benefits of the program, Exempt Organizations balanced measures have been deployed down to the Area Office level.

Balanced Business Measures (BM) and Workload Indicators (WI) for FY 2003 are listed below by PAC. A discussion of the measures, as well as their goals for FY 2003, can be found under the planning guidelines for the applicable PAC.

PAC 1B – Tax Law Interpretation and Published Guidance

- EO Guidance Documents Published (WI)

PAC 1C – Taxpayer Communication and Education

- EO Number of Outreach Efforts (WI)
- EO Customers Reached (direct) (WI)
- EO Customers Reached (indirect) (WI)

PAC 1E – Rulings and Agreements

- EO Determination Customer Satisfaction (BM)
- EO Determination Cases Closed (BM)
- EO Determination Timeliness (BM)
- EO Determination Quality (BM)
- EO Technical Activities Closed (WI)

PAC 7G – Tax Reporting Compliance-Field Examinations

- EO Examination Customer Satisfaction (BM)
- EO Examination Quality (BM)
- EO Team Examination Program (TEP) Examination Quality (BM)
- EO Examination Timeliness (excludes TEP) (BM)
- EO Examination Cases Closed (BM)
- EO TEP Taxpayer Cases Closed (BM)

ATTACHMENT II

BAC 25 – GENERAL MANAGEMENT AND ADMINISTRATION

PAC 5A – Unit General Management and Administration

GENERAL MANAGEMENT AND ADMINISTRATION PLANNING GUIDELINES

OFFICE OF THE DIRECTOR, EXEMPT ORGANIZATIONS

Director, Exempt Organizations is responsible for planning, managing, directing and executing nationwide activities for Exempt Organizations. The Director reports to the TE/GE Division Commissioner. The Executive Assistant to the Director and the Program Management Staff support the activities of the Director's office. The Director, Exempt Organizations also supervises and is responsible for the activities of the Directors Customer Education & Outreach (CE&O), Rulings & Agreements (R&A), and Examinations.

Activities of the Office of the Director include:

- Coordinating with the TE/GE Planning office to develop and implement measures for the EO segment that balance employee satisfaction, customer satisfaction and business results;
- Coordinating with state agencies and the Director, TE/GE Customer Account Services on the design of EO forms and instructions and on the processing of EO forms;
- Coordinating with the TE/GE Finance office to develop, implement, and monitor budgeted funds;
- Maintaining an effective internal communications program to keep employees informed of EO policies, procedures, laws and regulations;
- Developing functional implementing guidelines (formerly known as workplan guidelines) in consultation with the Directors CE&O, R&A, and Examinations, and monitoring accomplishments;
- Assisting in the development of business review criteria and participating in visitation programs;

- Coordinating activities of oversight agencies;
- Participating on IRS/NTEU partnering council;
- Participating on the Advisory Committee for TE/GE (ACT); and,
- Assisting in the development of Internal Revenue Manual and other required procedural guidelines.

FY 2003 INITIATIVES

During FY 2003, the following initiatives will be continued and/or undertaken:

- Stabilize the Examination and Determination programs and improve EO's presence in the community. Performance trends are being studied and areas of concern identified for additional management action to improve performance on balanced measures. EO will ensure that best practices are identified and disseminated nationally. The goal of this initiative is to improve performance in the examination program and to establish a resource-appropriate EO-wide compliance presence through the work of both CE&O and Examinations using compliance and other contacts based on market segment research and profiling efforts already underway. Resources for processing determination workload will be limited to those used in FY 2002 and processed by dedicated workgroups reporting to the Director, Rulings & Agreements.
- Partner with Electronic Tax Administration (ETA), Large and Mid-Size Business (LMSB) and Modernization, Information Technology and Security Services (MITS) to develop Form 990 electronic filing. Electronic filing will allow more taxpayer data to be captured with fewer errors while enabling the electronic disclosure of return data to internal and external requestors. This initiative will lessen customer burden, improve the accuracy of Exempt Organizations account information, facilitate timely and accurate electronic access to disclosable return information, reduce repetitive paper processes and data entry, and decrease taxpayer contacts/correspondence and unpostable situations at the EO Business Master File.
- Continue to support the redesign of the TE/GE Determination Letter System (TEDS). TEDS redesign will eliminate downtime and delays in the overburdened legacy system and will provide system enhancements to automate case grading, classification and assignment (eliminating time-consuming manual intervention). Some of the major business capabilities that may be delivered by the re-engineered and redesigned system include improved receipt and control of applications for determination, more accurate and efficient processing of user fees, improved inventory and status control of determination cases, automatic generation of acknowledgements and other correspondence to filers, accurate creation and updating of master file entities and account information, and generation of final determination letters for organizations. Part of the second release of the TEDS project will include the development and implementation of a web-based interactive system for

preparing a Form 1023, Application for Recognition of Exemption. See the discussion under PAC 1E below.

ATTACHMENT IIIA

BAC 21 - Prefiling Taxpayer Assistance and Education

PAC 1B – Tax Law Interpretation and Published Guidance

TAX LAW INTERPRETATION AND PUBLISHED GUIDANCE PLANNING GUIDELINES

OFFICE OF THE MANAGER, TECHNICAL GUIDANCE AND QUALITY ASSURANCE

EO Technical Guidance & Quality Assurance is comprised of tax law specialists managed by the Manager, EO Technical Guidance & Quality Assurance, who reports directly to the Director, EO Rulings & Agreements.

The objective of the Office is to provide technical interpretations of laws and procedures relating to exempt organizations by publishing revenue rulings, revenue procedures, announcements and notices for the public in conjunction with the Department of Treasury and the Office of Chief Counsel, pursuant to their Guidance Initiatives. This office also works with other EO and TE/GE offices to develop and participate in projects, identify and address emerging issues, share best practices, design proactive education and communication programs to meet internal and external customer needs and develop programs to increase the quality of the work product. This Office provides litigation support, where appropriate, to TE/GE Division Counsel. Staff from this Office also provide assistance to other government agencies on exempt organizations issues by responding to specific requests for information, participating in multi-agency task forces formed to address broad concerns, and analyzing actions of other agencies that may affect the tax treatment of exempt organizations.

PRIMARY INITIATIVES FOR FY 2003

The Office will focus on encouraging voluntary compliance and promoting technical quality. It will assist external and internal customers. Its internal customers primarily are the other segments of Rulings and Agreements (EO Technical and EO Determinations) as well as other EO functions, primarily Customer Education and Outreach (CE&O), and EO Examinations. The Office will provide technical expertise and assistance to EO Technical in individual cases, and plan and develop the text for the EO Technical Continuing Professional Education Program. It will provide technical expertise and assistance for the Director, Customer Education & Outreach in developing plain language publications and other material designed to help exempt organizations and the general public understand their rights and responsibilities in this area of tax law. It will achieve these objectives by:

- Working to increase the amount of guidance published in FY 2003 by working with TE/GE Counsel and Treasury to develop and issue the EO guidance items on the IRS/Treasury Priority Guidance Plan including guidance on joint ventures between exempt organizations and for-profit companies; guidance on section 501 (c) (4) organizations; guidance on private foundation terminations; guidance on the application of existing UBIT rules to the internet activities of exempt organizations; regulations under section 529 regarding qualified tuition programs; and guidance on split interest trusts.
- Reviewing “significant” technical work performed in EO Technical, including adverse rulings subject to declaratory judgment, rulings in which the opinion of TE/GE Counsel is being requested, and other cases presenting difficult interpretative issues, and holding conferences with the requesting organizations in those cases.
- Coordinating with the Manager EO Technical on development of annual Continuing Professional Education text and training program.
- Working with TE/GE Counsel to identify developing issues and to resolve particular cases, including cases in litigation.
- Monitoring legislative developments and coordinating with other IRS offices, including TE/GE Counsel and Treasury, to develop internal and external guidance needed to implement the legislation.
- Seeking and reviewing input from customers on their guidance needs and priorities.
- Responding to congressional and customer correspondence on EO issues.
- Developing technical training materials for EO employees using media including the IRM, memoranda, CPE, the IRS intranet, and interactive video (IVT). Topics for the IVT’s will be developed in conjunction with EO Examination. In 2003, consideration is being given to periodic release of CPE material as it is ready rather than a single release of a text. In addition, alternative training mechanisms are being considered to enhance the effectiveness and efficiency of training.
- Working with the States on a revised and invigorated information sharing procedure to enhance two-way information exchange within the permitted bounds of sections 6103 and 6104 of the Internal Revenue Code.
- Participating in task force(s) to combat the funding of terrorism through U.S. or foreign charities. This work will include the provision of specific support to functions within or outside of the Service on specific cases. It also will include review of Service systems and requirements to determine whether and to what extent improvements that will allow the early detection of problems in this area are warranted.
- Investigating the feasibility of a virtual library for EO staff that would allow the employee access to a web-based search engine for research purposes.

- The following tasks are completed in coordination with the Director, Customer Education and Outreach:
 - Developing materials such as plain language publications and web-site content to assist customers in understanding and complying with their tax responsibilities.
 - Coordinating with the National Association of State Charitable Officials (NASCO) through development of joint initiatives and provision of mutual support. Activities will include providing speakers for various symposiums and attendance at meetings; facilitation of timely sharing of enforcement and other information relative to applications for exemption, annual information returns and group exemptions; and providing shared training opportunities.
 - Initiating the development of an Annual Report on Exempt Organization Compliance.

BUSINESS PERFORMANCE

For FY 2003, a major workload indicator for this Office will be accomplishing its responsibilities in producing required public guidance, including the items in the annual IRS/Treasury Priority Guidance Plan, the annual updates of procedural guidance, preliminary drafts or studies of items on the two-year plan, and guidance needed to implement provisions of any legislation affecting exempt organizations enacted in FY 2003. Published guidance will be enhanced with general information articles and lesser forms of guidance, which, while not establishing precedent, will give an indication of the author's position.

Another major workload indicator will be the EO Technical casework reviewed and the ability to resolve or elevate the issues as appropriate.

FY 2002 was the first year staff of this office used ETS to track their time. A task team has been organized to review time charged to Technical Time Reports under ETS to identify activity codes and definitions that need to be modified to better reflect work completed and to enable more efficient and effective planning and monitoring of work performed. Those changes will be implemented and monitored in FY 2003. The resulting information will be used to develop future Balanced Measures in accordance with the IRS Modernization Plan.

ATTACHMENT IIIB

BAC 21 - Prefiling Taxpayer Assistance and Education

PAC 1C – Taxpayer Communication and Education

CUSTOMER EDUCATION AND OUTREACH PLANNING GUIDELINES

OFFICE OF THE DIRECTOR, CUSTOMER EDUCATION AND OUTREACH

OVERVIEW

The Director, Customer Education and Outreach, (CE&O) reports to the Director, Exempt Organizations and supervises the activities of PAC 1C. The Director, CE&O develops the strategic direction of the nationwide education and outreach programs for EO customers in order to promote voluntary compliance.

Customer Education & Outreach (CE&O) will help EO external customers understand their tax responsibilities by achieving the following objectives:

- Develop tailored education programs focused on specific customer sub-segments.
- Monitor non-compliance trends to design proactive outreach products for use by customers.
- Coordinate design and delivery of products with the assistance and resources of EO Examinations (Exam) and Rulings and Agreements (R&A) and other embedded TE/GE functions.

CE&O will track the following Workload Indicators in FY 2003:

- Number of Outreach Efforts
- Customers Reached (Direct)
- Customers Reached (Indirect)

Exempt Organizations will also support the Balanced Measure *TE/GE Education and Outreach FTE*.

In addition to the above, CE&O maintains separate databases to monitor speeches, conferences, and customer partnership meetings. CE&O will continue to collect the following:

- Location
- Sponsor

- IRS Speaker(s)
- Number of Attendees
- Topics Covered
- Cost

CE&O classifies its outreach activities into two categories: ***Direct*** and ***Indirect***. ***Direct*** outreach efforts are educational events (such as a speech, seminar, workshop, exhibit, panel discussion or conference) where educational information is provided to external customers in an effort to educate and increase their voluntary compliance. ***Indirect*** outreach includes contact with customers through articles, publications and websites. Indirect outreach also includes CE&O's partnering with various stakeholders to identify ways to increase voluntary compliance of EO external customers. The sections below discuss these two categories in more detail.

During FY 2003, CE&O will continue to develop and expand programs started in FY 2002, while building and implementing a strategic multi-year education and outreach plan.

FY 2003 DIRECT OUTREACH EFFORTS

Conferences, Workshops, and Seminars

Instructors Cadre for Conferences, Workshops and Seminars

In the latter part of FY 2002, EO CE&O recruited staff from R&A and EO Exam to build a cadre of presenters for the EO workshop program. All participants in the cadre will have attended presentation skills training in FY 2002. CE&O will expand this cadre in FY 2003 by providing this training to additional EO staff.

Workshops for Small and Mid-sized Exempt Organizations

During FY 2002, CE&O, in conjunction with EO Exam, conducted a series of successful workshops for small and medium size exempt organizations in various cities throughout the country. These workshops included guidance on:

- Exemption
- Filing requirements and properly completing the form
- Recordkeeping
- Unrelated Business Income
- Wagering Excise Tax (Gaming)
- Disclosure/Charitable Contributions
- Employment Taxes
- Audit Process
- Customer Service

In FY 2003, CE&O will expand this program to increase the number of workshops offered. In addition, CE&O will support and streamline the planning and delivery of these conferences by:

- Selecting instructor teams, based on availability and location, and in consultation with Area and Group Managers;
- Selecting the locations and coordinating with the local site representatives.
- Marketing the conferences through stakeholders (internal and external organizations);

- Advertising the conferences on the EO internet site;
- Preparing, printing and shipping handout material;
- Generating a mailing list of approximately 2,000 EOs per location and preparing invitation flyer;
- Coordinating telephone registration process with CAS; providing general direction and oversight for that process;
- Coordinating an e-mail registration process, and working toward developing and implementing an on-line registration process (via e-mail directly to EO CE&O);
- Maintaining registration database and mailing confirmation letters to registrants; responding to questions from registrants;
- Helping to locate suitable lodging for instructors;
- Coordinating use of datashow/equipment with local site representatives and lead instructor;
- Coordinating printing and delivery of any other items, i.e., evaluation forms, quiz answer sheets, CPE credit letters, etc. with lead instructor;
- Capturing conference attendee feedback, to be used to improve future conferences;
- Facilitating instructor training;
- Refining the workshop technical content.

"How-to" Workshop on Applying for Exemption

Using the framework developed for the Small and Mid-sized EO Conferences, CE&O will plan to expand its conference program by adding separate workshops on applying for exempt status. CE&O will discuss piloting these workshops in partnership with local state charity offices. CE&O intends to work with the National Association of State Charity Officials (NASCO) in the development and implementation of these workshops.

Regional Conferences and Partnering with Practitioners

For a number of years, EO has partnered to present the Western Conference on Tax-Exempt Organizations in Los Angeles, CA. CE&O will continue this partnership in FY 2003 and provide support for the program. CE&O will also explore other opportunities to partner with practitioners and organizations, in a workshop or conference setting, to help educate the exempt organizations community.

TEP/ISP Conferences/Seminars

In FY 2002, EO held an "Issues Conference" on technical issues relating to healthcare and colleges and universities. This pilot program was intended to disseminate issues identified in our examination and determination processes to the public. In FY 2003, CE&O will work with Exam and R&A to re-engineer and expand the program. CE&O will assume responsibilities for this program similar to those identified above for the Small and Mid-size Conference program. Actual conference roll out is unlikely before FY 2004.

Speeches and Panels

“Stand-alone” Speeches or Talks

EO staff, primarily from Exam and R&A, will continue to provide speakers to address the exempt organizations’ community. This activity applies to non-IRS sponsored conferences, seminars or workshops (external meetings) where an exempt organization employee delivers a speech or makes a presentation either individually or as a part of a panel. In FY 2003, CE&O anticipates accepting approximately 180 of these types of requests.

IRS Tax Forums

EO participated in the IRS Tax Forums for the first time in FY 2002. Six Forums were held throughout the country. At each Forum, EO presented an introductory workshop. CE&O expects to continue this practice in the coming year.

Outlines, Speeches, Handouts and PowerPoint Presentations

CE&O will concentrate on developing an intranet-based library of outreach materials for use by the EO staff. Agents and Tax Law Specialists will be able to select the appropriate outline, speech, handout, or PowerPoint product for a particular speech, reducing the amount of time needed to prepare for a presentation. CE&O will be responsible for:

- soliciting and gathering materials currently in use by agents;
- preparing new materials, as needed;
- developing and converting the materials to a standardized format for all EO products;
- posting materials on the EO/CE&O Intranet Library; and
- advising agents of materials that may be helpful for particular speeches.

FY 2003 INDIRECT OUTREACH EFFORTS

In June 2002, the Advisory Committee for TE/GE (ACT) provided CE&O with advice and direction regarding publications, website considerations and other types of outreach products. This portion of the Implementing Guidelines incorporates many of their recommendations.

Publications and Notices

Notice Clarity

CE&O has been designated as the EO “notice clarity” review function. CE&O will review all communications with taxpayers that are developed or “owned” by EO. This will not include communications developed by the Forms and Publications Division nor those addressing a particular taxpayer’s tax position. CE&O will review these communications for the following purposes:

- Is the basic message clear?
- Does the communication tell taxpayers what they need to know and what they need to do, no more and no less?
- Does the communication use good design techniques to give the communication a professional appearance?

Publications

In FY 2002, the Office of Customer Education and Outreach began the process of reviewing and updating some of the existing EO publications and began drafting new publications. Our focus in FY 2003 will be to complete many of those publications, taking into account the recommendations of the ACT. Once a publication is prepared, CE&O will work with stakeholders to develop a marketing plan.

During FY 2003, CE&O will focus on the following publications:

- Introductory publications for 501(a) exempt organizations:
 - *Applying for Tax-Exempt Status*;
 - *Filing and Record-keeping Requirements for Tax-Exempt Organizations*; and
 - *Required Disclosures for Exempt Organizations*.
- *Requirements for Exemption* -- short publications, addressing specific technical information unique to particular categories of tax-exempt organizations, used as inserts to the other publications.
- *Donated Vehicles* – During FY 2002, the IRS and state charity officials drafted two brochures on this topic: one advises exempt organizations how to avoid problems raised by vehicle donation programs; the other advises vehicle donors of their responsibilities. CE&O will complete these brochures in FY 2003.
- *Should My Organization Apply for Tax Exempt Status?* – CE&O will complete this “beginner” brochure, which explains the “pros” and “cons” of exemption for 501(c)(3) organizations that are considering applying for tax exemption.
- *Dos and Don'ts for Exempt Organizations* – CE&O will prepare a brochure covering “basic” steps exempt organizations should take or avoid.
- Publication 3079, *Gaming Publication for Tax Exempt Organizations* – CE&O and R&A will complete the revisions to this publication.

Forms

EO CE&O will work with R&A to maintain existing forms, help to assess external customers' needs on necessary changes to existing forms, monitor proposed changes for Forms 1023 and 1024, and assist where needed and as requested.

CE&O will work with R&A to develop a Form 1023 application as part of the IRS Internet web site. This Internet application is expected to establish an interactive method for filling out a Form 1023. While electronic filing of the form will not be available in the short-term, completing the application in such an environment will provide sufficient educational information that should result in an easier to prepare and process application.

In addition, CE&O will work with the EO Electronic Filing Project Manager to obtain external stakeholder input on the development of electronic filing for Form 990.

Websites

Internet (*The Digital Daily*)

During FY 2003, EO CE&O will maintain and continue to develop the EO website. We will concentrate on the structure of the *Charities and Non-Profits* pages, attempting to improve accessibility.

We will begin to add the EO Life Cycle charts, developed by the ACT, to the EO portion of the Internet. These charts for charities and private foundations, and the corresponding materials, will help our customers access information in an easy and logical manner.

CE&O will advertise upcoming events, such as conferences, on the Internet, and make workshop and conference registration forms available there as well.

Intranet

The purpose of the IRS Intranet site is to provide IRS employees with easy access to information that is relevant to and essential in meeting their job responsibilities. In the past year, CE&O was not able provide this information promptly. In FY 2003, CE&O will place more emphasis on developing, (in conjunction with Exam and R&A) and delivering information for the Intranet.

As mentioned above, speeches, outlines and PowerPoint presentations will be added to the Library on the CE&O Intranet page. EO employees will be able to easily access these materials to help them prepare for a presentation to the public. In addition, CE&O will work toward a more timely posting of memorandums and procedures for employee access.

Customer Partnerships

This year, CE&O will develop a strategic plan to work with stakeholders to collect information and distribute materials. CE&O will continue establishing a master list of EO stakeholders and developing an on-going relationship with some of these organizations. These partnerships will include other offices within the IRS, other government agencies, stakeholders groups including the AICPA, ABA, NAAG/NASCO, ASAE, NACUBO, and advisory councils of practitioners who provide input to EO. We plan to work together to provide tax information to their members through their newsletters, websites and magazines.

Adopting an idea proposed by the ACT, CE&O will also explore the idea of “directed communications” to our customer sub-segments using electronic delivery methods, such as a “list serve.”

ATTACHMENT IIIC

BAC 21 - Prefiling Taxpayer Assistance and Education

PAC 1E – Rulings & Agreements

RULINGS AND AGREEMENTS PLANNING GUIDELINES

OFFICE OF THE DIRECTOR RULINGS AND AGREEMENTS

The activities of PAC 1E are supervised by the Director, EO Rulings & Agreements (R&A) who reports to the Director, Exempt Organizations. The Director, R&A is responsible for planning, managing, directing, and executing nationwide activities for the EO Determinations, Rulings and Technical Guidance programs using measures that balance customer satisfaction, employee satisfaction and business results. The Managers of EO Determination (Cincinnati), EO Determination Quality Assurance (Cincinnati), Technical Guidance & Quality Assurance (Washington, DC), EO Technical (Washington, DC), and two Analysts (Atlanta, Cincinnati), report to the Director, R&A.

EO Determination is comprised of EO determination specialists (Revenue Agents, Tax Law Specialists, etc.) managed by EO Group Managers and a Support & Processing function that are supervised by the Manager, EO Determination. EO Determination Quality Assurance is comprised of EO determination specialists (case reviewers) managed by the Manager, EO Determination Quality Assurance. EO Technical Guidance & Quality Assurance is comprised of tax law specialists managed by the Manager, EO Technical Guidance & Quality Assurance. EO Technical is also comprised of tax law specialists managed by EO Group Managers supervised by the Manager, EO Technical.

EO Rulings & Agreements will take several actions in FY 2003 to meet a key organizational challenge facing EO. Over the past decade, determination receipts have increased over 60% and continue to grow at a rate of 3 to 5 % per year. In the face of growing receipts and in light of our belief that customer requested workload should take priority, EO resources were diverted from the examination process to determination work. Over time, this has had an adverse impact on examination coverage. Beginning in FY 2002, EO ceased to prioritize the determination workload over the examination process. As a result, on a one-time basis, a specified number of exam staff will move permanently to the determinations function, and report through the Manager Determinations in Cincinnati to the Director R & A. During the first quarter of FY 2003, determination groups throughout the country will consolidate procedures and otherwise merge. This is an initial step toward creating efficiencies to more effectively address rising receipts. R&A also will roll out a revised case assignment guide for the determination letter program, which will better match cases with staff who have the appropriate experience and expertise. Other efforts include an accelerated processing pilot project, revision of the Form 1023 and Instructions, and the implementation of the TE/GE Determinations Systems (TEDS).

OVERVIEW

The Director focuses on ensuring compliance through up-front programs that achieve the following objectives:

- Provide a timely and consistent application process.
- Provide timely and consistent private letter rulings and technical advice memorandums.
- Provide timely development of the EO CPE text and other technical assistance for TE/GE EO personnel.
- Provide guidance to customers through formal reliance documents, “plain language” publications, letters, the IRS Internet site, and other media.
- Provide technical expertise to keep forms used by exempt organizations up-to-date.

OFFICE OF DETERMINATIONS PROGRAM – HEADQUARTERED IN CINCINNATI

OVERVIEW

The objective of the EO Determination Program is to issue correct determination letters as soon as possible after completed applications are received and user fees processed.

For FY 2003, we are projecting application receipts of approximately 91,258. As noted above, groups currently working determination applications outside of Cincinnati and managed by the Area Offices will begin reporting to Cincinnati in FY 2003.

EMERGING ISSUES AND TRENDS

Determination specialists are encouraged to look for unusual issues or trends that may emerge as they consider applications. During FY 2003, the Director R & A will initiate development of a formal mechanism by which trends and issues can be identified through the determination letter process, and referred to the Director for appropriate action and coordination with the Directors, Customer Education & Outreach, Examinations, and Research & Analysis.

TECHNICAL SCREENING (MERIT CLOSURES)

Technical screening is the initial step in the application review process. Screening is the assessment of determination letter applications to quickly identify and approve applications from types of organizations that historically have demonstrated a high level of compliance, along with those applications that were submitted with necessary information to show that the requirements of the Internal Revenue Code and Regulations are met. All technical screening is conducted in Cincinnati, unless otherwise authorized by the Director, EO Rulings & Agreements.

If an application lacks only minimal, non-complex information or documentation, the screener may contact the organization by telephone or fax to secure the additional information. This category of cases is limited to those where the screener reasonably expects to secure the information within five days. Once necessary information is received, a determination letter is prepared and the case is approved on merit.

Technical screening also includes time spent determining that an application must be assigned to a technical specialist for a more in-depth review.

Applications input to EDS are automatically placed in status 50 (New Case Establishment). Upon receipt by the Centralized Files Unit in Cincinnati Determination Processing, cases are updated to status 60 (Open in Technical Screening). In-process screening cases are identified by EDS Status Code 62 (Assigned to Technical Screener). Screening closures are identified by EDS Status Code 06 (Screened Out).

Technical screening time is reported under Activity Code 131.

DETERMINATION CASES (NON-MERIT CLOSURES)

Applications that cannot be closed on merit are referred to as non-merit cases. These cases involve incomplete applications or complex issues and/or require research. Screeners identify and note the relevant concern(s) on a check sheet and the application is ultimately sent to a technical group to be worked. Certain cases are further classified to be worked in Cincinnati, based on factors such as age of case, expedite criteria, etc.

Other types of cases, such as group rulings and farmers' cooperatives are not screened prior to assignment because historically they have not met the merit closure criteria.

Unassigned non-merit cases are identified by EDS Status Code 51 (Centralized Unassigned Inventory). Unassigned non-merit cases that have been sent to a group are identified by EDS Status Code 75 (Unassigned in Group). Once cases are assigned, they are identified in Status Code 52 (Case Assignment). Closures are identified by EDS Status Codes 01 (Approved), 02 (Disapproved), 04 (Withdrawn by Taxpayer), 08 (Refusal to Rule), 11 (Failure to Establish) and 12 (Other). EDS Status Code 03 is reserved for cases that are closed with no remittance received.

Time spent on processing non-merit cases is reported under Activity Code 130.

OTHER DETERMINATIONS

Authorized special determination projects, approved by the Director, EO Rulings & Agreements, are considered other determination activities. Time spent on other determination activities is reported under Activity Code 133.

IN-GROUP CASE REVIEW

Some determination cases are reviewed in the workgroup by senior determination specialists to assist the manager with status 55 (Waiting for Closing Approval) closures.

Time spent on this type of case review is reported under Activity Code 271.

OTHER PROJECTS

➤ Revision of Form 1023 and Instructions

The Cincinnati EO Determination Customer Satisfaction Team has sponsored a revision of the Form 1023 in an attempt to make the form more user friendly and easier for agents to review.

➤ TEDS

R&A will take the lead on rollout of the TE/GE Determination System (TEDS). TEDS will replace the current tracking system, EDS, and allow for the full imaging of determination letter filings. EO will begin to release these images to the public as TEDS progresses. TEDS also will allow for automated routing of cases to the appropriate posts of duty.

R&A will work on development of a TEDS application for the IRS Internet web site. The Internet application is expected to establish an interactive method for filling out a Form 1023. Although electronic filing of the form will not be available in the short-term, the internet environment will enable us to provide educational information that will result in easier to fill out and process applications.

➤ ACT Project

R&A Staff in both Cincinnati and Washington will work with Advisory Committee members on their projects to evaluate the efficiency and effectiveness of the current determination letter process and recommend appropriate changes.

DETERMINATION QUALITY ASSURANCE

➤ In-Process Cases

The Manager, EO Determinations Quality Assurance (EODQA) is responsible for the determination case review program and its objectives.

Completed determination applications are subject to selection for review for technical and procedural accuracy. Certain types of applications, such as private schools, group rulings, partnerships, and proposed adverse cases, are reviewed as part of the mandatory review program. A random sample of applications is selected for review under the Tax Exempt Quality Measurement System (TEQMS).

The TEQMS quality scores for FY 2002 were calculated by giving equal weight to all quality standards, and will be computed in the same manner for FY 2003. The Manager, EODQA will provide feedback on TEQMS during FY 2003, with emphasis on the standards needing

improvement. A team has been established to review current standards to determine whether changes are warranted before FY 2004 begins.

In addition to the actual review of cases, time applied to technical/procedural research, preparation of reviewers' memoranda, reviewers' feedback reports, issuance of the determination letters or transfer to Appeals fall under this determination activity.

In-process review cases are identified by EDS Status Codes 31 (In Review), 32 (Returned on Review Memo), 33 (Returned to Review), 35 (30-Day Letter Sent) and 38 (Review Suspense). Reviewers' time spent on these activities is reported under Activity Code 134. Project Code 703 is used for mandatory review cases; Project Code 704 is used for TEQMS cases.

➤ **Other Quality Assurance Review**

Consistency reviews are completed on a quarterly basis as part of the TEQMS process. Such reviews are the means by which the Reviewers are evaluated on the correctness of their application of the TEQMS standards. All reviewers participate in each consistency review as follows: each reviewer independently completes the appropriate check sheet for a case from each of the three categories of TEQMS; the Manager, EODQA analyzes the check sheets and prepares a comparison that is distributed to each reviewer and the reviewers and Manager, EODQA meet to discuss any differences in check sheet responses and how standards are being applied. This key piece of the TEQMS program helps to ensure consistency, uniformity, and management oversight.

Other review activities include technical assistance, liaison activities, management studies and assignments, technical coordination, special reports and procedures, clarification of technical screening questions, etc. Time spent on other review activities is reported under Activity Code 135.

➤ **Saturation Reviews**

Saturation review encompasses review of specific issues identified through workload analysis, other than TEQMS and mandatory review. During FY 2003, we expect to complete one saturation review. Time applied to saturation reviews is reported under Activity Code 270.

SUPPORT ACTIVITIES IN THE CINCINNATI OFFICE

➤ **Strategic/Program Planning and Business Performance**

Strategic/Program planning and Business Performance includes developing guidelines and initiatives, as well as monitoring established objectives. Time spent on these activities is reported under Activity Code 140.

➤ EP/EO DETERMINATION PROCESSING

1. CENTRALIZED FILES

After initial case processing at the Cincinnati Submission Processing Center, determination applications are sent to the Centralized Files Unit (CFU) in Cincinnati. CFU employees are responsible for maintaining the unassigned inventory. They assign both screening and non-merit cases to revenue agents in Cincinnati, ship cases to the groups outside of the Cincinnati office to be worked, process incoming mail, input cases into EDS, and notify appropriate state officials according to section 6104(c) of the Internal Revenue Code of a refusal to recognize an organization as described in section 501(c)(3) of the Code, or of the operation of such organization in a manner which does not meet, or no longer meets, the requirements of its exemption. Time spent on these activities is reported under Activity Code 148.

2. ADJUSTMENTS

Adjustment Unit employees work primarily with unpostable transactions and user fee issues, such as non-remit cases, dishonored checks and refunds of overpayments. In addition, letters concerning foundation follow-up issues are generated from this unit. Time spent on these activities is reported under Activity Code 146.

3. RECORDS

The Records Unit is the final stop for determination applications. Employees mail determination letters, microfiche EO cases and prepare EP cases for shipment to the Federal Records Center. Time spent on these activities is reported under Activity Code 147.

CASE PROCESSING GUIDELINES

The following guidelines apply:

- All cases received from the Cincinnati Submission Processing Center (CSPC) should have their status updated from Code 50 (New Case Establishment) to Code 60 (Open in Technical Screening) **within one workday** of receipt.
- All cases input to EDS at the Cincinnati office should have their status updated from Code 50 (New Case Establishment) to Code 60 (Open in Technical Screening) **within one workday** of input.
- All cases input to EDS by groups outside of Cincinnati should have their status updated from Code 50 (New Case Establishment) to Code 75 (Unassigned Inventory in Group) **within one workday** of input.
- Any case transferred from the Cincinnati Determination Processing to a group outside of Cincinnati should be mailed by Cincinnati **within one workday** of placement of the case in EDS Status Code 58 (Case in Transit).

- Upon receipt of a case from Cincinnati Determination Processing, any group outside of Cincinnati should update the case on EDS from Code 58 (Case in Transit) to Code 75 (Unassigned Inventory in Group) **within one workday** of receipt.
- In the Cincinnati office (with the exception of technical screening cases), any case moved from Centralized Files to a work group should be updated to Status Code 75 (Unassigned Inventory in Group), unless the case is assigned to a specialist. Then, the status should be updated from Code 51 (Centralized Unassigned Inventory) to 52 (Case Assignment). All cases updated to a work group should be sent **within one workday** of the placement of the case in EDS Status Code 75 (Unassigned Inventory in Group) or Code 52 (Case Assignment).
- Groups outside of Cincinnati transferring open cases back to Cincinnati should update the status to Code 58 (Case in Transit) using specialist number 31298 (Centralized Files). Cases should be mailed back to Cincinnati **within one workday** of the placement of the case in EDS Status Code 58 (Case in Transit).
- Groups outside of Cincinnati transferring cases to the Washington POD should update the status to Code 58 (Case in Transit) using specialist number 50980. Cases should be mailed to the Washington POD **within one workday** of the placement of the case in EDS Status Code 58 (Case in Transit).
- Only groups in Cincinnati should be closing cases using Code 06 (Screened Out), unless otherwise authorized by the Director, EO Rulings & Agreements.

BUSINESS PERFORMANCE

Determination Program objectives and measures will be reported on a national basis for FY 2003. All groups will use reports available on EDS for monitoring their case inventory. EO determination Management Information Reports produced by the Staff of the Director, Rulings & Agreements will be used to monitor accomplishments for Balanced Measures and Workload Indicator purposes. Technical Time Reporting System Table 14, EO Technical Time Analysis (Staff days/FTE and Plan), will be used to monitor staff days/FTE applied to the Determination Program. Narrative reports, specific program/project reports, special purpose visits, as well as other means of communication, also will be used to monitor activities and accomplishments under this program.

Balanced Business Measures for FY 2003 are as follows:

- Quality Measures
 - EO Determination Customer Satisfaction
 - EO Determination Quality
 - EO Determination Timelines
- Quantity Measures
 - EO Determination Cases Closed

The objective for determination customer satisfaction for FY 2003 is 68% satisfied/9% dissatisfied. Measures for determination letter quality is expected to be at 84% with Quality Assurance Staff providing advice from trend analysis to managers, reviewers and determination specialists on targeted actions to improve scores in TEQMS standards most frequently failed. Quality will be the focus of improvement projects developed and implemented by a process team of Cincinnati employees. Employee satisfaction objectives for Rulings and Agreements are under development.

Within the framework of the Balanced Business Measures concept, determination cases closed will be used as a quantity measure for the determination program in FY 2003. The objective for FY 2003 is 90,718 closures.

Computation of case timeliness (cycle time) is based on a 12-month rolling average. Cases not included in computing case timeliness are: cases returned from post review; and cases that have been in suspense Status codes 37 (Group Suspense), 38 (Review Suspense), 39 (Technical Screening Suspense), 54 (Transferred to Appeals) and 56 (Technical Advice Transfer – Suspense).

Merit Closures (applicable to Cincinnati only unless otherwise authorized by Management)

These cases are closed with closing code 06. The national objective is 35 days from the control date to the closing date

All Cases

This represents all cases closed (closing codes 01, 02, 06, 08 and 12) with a determination letter issued, excluding those applications processed by EO Technical in the Washington, D.C. office. The national objective is 110 days from the control date to the closing date.

EO TECHNICAL – HEADQUARTERED IN WASHINGTON, DC

OVERVIEW

The objective of EO Technical in Washington, D.C., is to provide technical expertise for EO. This includes the processing of initial applications for recognition of exemption referred from groups reporting to the Cincinnati Office, technical advice and assistance requests from the Office of EO Examinations, private letter rulings, and other requests (e.g., information letters, changes in accounting period or method) in accordance with procedures issued annually in the first Internal Revenue Bulletin for the calendar year. Specific work includes:

- Applications for recognition of exemption transferred from the Cincinnati Office that require interpretation of the tax laws, i.e., those that are not covered by established precedent or otherwise have a high level of technical difficulty. These cases are controlled on EDS upon initial receipt and remain so while under consideration by EO Technical. User fees for these cases are received and processed in the Covington Submission Processing Center. When each case is completed, the ruling letter is issued from EO Technical, the case is closed on EDS, and the case file is returned to the Cincinnati office to be microfiched.

- Private letter ruling requests with applicable user fees received directly from customers. Private letter rulings interpret and apply the tax laws, or any non-tax laws applicable to exempt organizations, to the taxpayer's specific set of facts. They are issued on proposed transactions and on completed transactions if the request is submitted before the return is filed for the year in which the transaction that is the subject of the request was completed. Seven other items on which Letter Rulings are issued are shown in Section 6.01 of Rev. Proc. 2002-4, 2002-1 I.R.B. 121, at 129. User fees for these letters are set out in Rev. Proc. 2002-8, 2002-1 I.R.B. 239, at 245 or their successors.
- Changes in accounting period or method requests received from exempt organizations. See Section 6.08 of Rev. Proc. 2002-8, 2002-1 I.R.B. 239, at 245, or its successor for user fee applicability.
- Information letter requests received from individual customers or groups representing a class of customers. Information letters call attention to a well-established interpretation or principle of tax law (including a tax treaty) without applying it to a specific set of facts. They are issued under procedures in Section 16 of Rev. Proc. 2002-4, 2002-1 I.R.B. 121, at 156 or its successor. No user fees are charged for this type of letter.
- Technical advice requests received from EO Area Offices through the Office of EO Examinations, the EO Determinations Office, or from an Appeals Area Director, SB/SE-TE/GE. They are processed under procedures in Rev. Proc. 2002-5, 2002-1 I.R.B. 164 or its successor, and frequently require coordination with TE/GE Division Counsel. Requests should be made when there is a lack of uniformity regarding the disposition of an issue or when an issue is unusual or complex. In addition, a taxpayer whose case is under the jurisdiction of one of the preceding offices may request that an issue be referred for technical advice.
- Participating with other EO Functions on teams or task groups devoted to specific issues, such as planning market segment studies, developing procedures, revising forms, revising or reorganizing the IRM, or long-range planning.
- Providing assistance to other government agencies on exempt organizations issues by responding to specific requests for information or technical assistance, participating in multi-agency task forces formed to address broad concerns, and analyzing actions of other agencies that may affect the tax treatment of exempt organizations.
- Participating in pre-submission conferences requested by customers, when warranted, and coordinating with EO Examination, as appropriate.
- Supporting Customer Education and Outreach with technical expertise in initiating or reviewing publication items, and providing personnel to represent TE/GE before customer groups.
- Supplying strategic and technical help to project teams to ensure national consistency and quality.

➤ Providing litigation support.

The following tasks are completed in coordination with the Manager, EO Technical Guidance and Quality Assurance:

- Planning, developing, and issuing the text for the annual EO Continuing Professional Education (CPE) program provided for EO technical personnel, as well as providing instructors for the training sessions.
- Coordinating with Examination and Determinations on a redesign of the CPE program to address limited resources available for training travel.
- Identifying issues that require coordination with other offices in IRS, Chief Counsel, or Treasury and working with the appropriate offices to resolve issues. This includes resolving technical questions, analyzing proposed legislation, and identifying areas where additional guidance is needed.
- Providing technical expertise to EO Determinations, EO Examinations, and other segments of TE/GE and IRS in various ways, including answering formal requests for Technical Assistance and informal e-mail or telephone requests from individual agents.

OTHER PROJECTS

EO Technical and EO Technical Guidance and Quality Assurance will pursue the following special projects in FY 2003:

1. Participate in task force(s) to combat the funding of terrorism through U.S. or foreign charities. This work will include the provision of specific support to functions within or outside of the Service on specific cases. It also will include review of Service systems and requirements to determine whether and to what extent improvements that will allow the early detection of problems in this area are warranted.
2. Work with EO Determinations Quality Assurance on a Quality Initiative. Check sheets will be developed and piloted in three areas: IRC 509(a) (3) Private Foundation exception – supporting organization; IRC 501 (c) (3) – Hospitals and Clinics; and IRC 501 (c) (3) – Instrumentalities of Government. Documentation of case development in these three areas during the pilot will include use of these check sheets. Evaluation of the pilot will include ease of use, time per case and agent feedback on general usefulness and possible public comment. If the pilot is successful, the check sheets will be implemented on a national basis and other check sheets will be developed.

BUSINESS PERFORMANCE

Technical Time Reporting System Table 14, EO Technical Time Analysis (Staff days/FTE and Plan) will be used to monitor staff days/FTE applied to the Rulings Program. Its activities and accomplishments will be monitored through narrative reports, specific program reports, and other means of communication. It will use current EDS tables to monitor initial EO applications (determinations) referred from EO Determinations, and all groups will begin using reports available on EDS for monitoring case inventory.

Workload Indicators for FY 2003 are as follows:

- EO Guidance Documents Published
- EO Technical Activities Closed
 - Initial Determinations
 - Private Letter Rulings
 - Accounting Changes

The FY 2003 target for EO Technical Activities Closed is 2,300 closures consisting of 1,300 initial determinations, 480 private letter rulings, and 520 accounting changes.

ATTACHMENT IV

BAC 22 - Filing & Account Services

PAC 2C – Account Management & Assistance – Electronic/Correspondence Assistance

Customer Services Planning Guidelines

Management of Customer Account Services is under the Director, Customer Account Services (CAS) who reports to the TE/GE Division Commissioner. Customer Account Services is centralized in our Cincinnati, Ohio site. Taxpayers should contact the centralized site for customer account inquiries. The Director, Rulings & Agreements will plan staff days to support Customer Services activities. Support and program assistance will be provided to handle:

- Public Inspection/FOIA/Disclosure Requests
- Telephone Inquiries
- Correspondence Inquiries
- Walk-in Inquiries
- Congressional Inquiries
- Taxpayer Advocate Office Inquiries/Cases

Minimal support should be required from the Directors Examinations and Customer Education and Outreach.

BUSINESS PERFORMANCE

Customer service objectives will be reported on a national basis for FY 2003. Technical Time Reporting System Table 14, EO Technical Time Analysis (Staffdays/FTE and Plan), will be used to monitor staff days applied. Narrative reports, specific program/project reports, special purpose visits, as well as other means of communication, will also be used to monitor activities and accomplishments under this program.

ATTACHMENT V

BAC 37 – Compliance Services

PAC 7G – Tax Reporting Compliance – Field Examinations

EXAMINATIONS PLANNING GUIDELINES

OFFICE OF THE DIRECTOR, EXAMINATIONS

The Director, Examinations reports to the Director, Exempt Organizations. The Director, Examinations supervises the activities of EO Examination Programs and Review (EPR) and the six EO Area Offices. EO Examinations is comprised of EO examination specialists, supervised by EO Group Managers who are supervised by the EO Area Manager within a given geographic area. The Director is responsible for:

- Developing overall EO enforcement strategy and goals to enhance compliance consistent with overall TE/GE strategy, and implementing and evaluating EO examination policies and procedures.
- Regulating and monitoring exempt organizations through examination of returns, with emphasis on assuring that exempt organizations continue to meet the statutory requirements for exemption and their other federal tax responsibilities, including employment taxes.
- Coordinating tax administration and enforcement activities with other federal and state agencies.
- Developing and implementing measures for the EO examination program that balance customer satisfaction, employee satisfaction and business results.
- Monitoring and evaluating the quality and effectiveness of the EO Examination programs.
- Developing and implementing the EO returns classification and selection process, and the case review and closing processes.

EO Examinations will focus on identifying and correcting non-compliance by achieving the following objectives:

- conduct focused, efficient examinations.
- resolve issues at the lowest possible level using appropriate resolution mechanisms.

- ensure consistency and fairness in application of law.

GENERAL

As set forth in the TE/GE Strategic Plan, this year's examination plan is intended to continue to enhance IRS's presence in the exempt organizations community. The objective is to promote voluntary compliance with the rules relating to tax exempt organizations. What follows is an attempt to balance both the need to provide broad coverage with the need to focus resources in a manner that will allow the IRS to learn from its examinations. The FY 2003 plan also recognizes that the EO Examination function plays a key role in education and outreach and acknowledges that examination resources will be utilized in a flexible manner, well beyond use in the traditional direct examination context.

EO Examinations will take appropriate actions to address improvement factors derived from the Customer Satisfaction Surveys and the results of quality (TEQMS) reviews.

Early in FY 2003 it is expected that the entire determination program will be transferred to Rulings and Agreements. All remaining technical resources in EO Examinations will be dedicated to the examination program and customer education and outreach.

Audit Techniques

The audit techniques for conducting examination activities are field, office, and correspondence/OCEP (Office Correspondence Examination Program). Field examinations of large, complex organizations that require a team of specialized revenue agents, as well as coordination between IRS functions and other governmental agencies, are conducted using team audit procedures. Generally, group managers have a responsibility to determine which audit technique is appropriate for a case based on the potential issues involved, the scope of the examination, and the most effective way to gather required information.

More cases will be examined using OCEP and limited scope in FY 2003. Cases identified for limited scope examinations have been selected by either manual classification by an experienced Revenue Agent or through the Return Inventory and Classification System (RICS) as being most likely to be non-compliant in specific areas. The scope of the examination for limited scope audits should be limited to the classified issues and large, unusual or questionable items (LUQ) reflected on the return. Additionally, the agent should review the organizing documents to determine the organization's exempt purpose. Where exempt purpose is not a classified issue, an analysis of the operational activities is not generally appropriate. On all cases the agent must also establish that the organization has filed all other required Federal returns. Additional issues can be pursued with the manager's documented approval. The case file must include proper documentation concerning the scope of the examination and the package audit requirements. Standard closing letters are used.

During FY 2003, EO Examinations may conduct compliance check projects. These projects will be developed to address specific compliance issues. Compliance check projects will be designed to contact taxpayers to obtain information relating to the specific compliance issue

under review. Compliance check projects may involve a range of strategies such as 1) the issuance of information notices or other educational material on a given issue; 2) the issuance of targeted compliance notices to non-compliant organizations, with directions for taking appropriate actions; 3) associated follow-up contacts; and 4) on-site field visits to non-filer organizations, for the purpose of verifying compliance with filing requirements and securing delinquent returns. When warranted, based on the information provided by the taxpayer, the compliance check inquiry may be converted to an examination where the scope of the examination is generally limited to the specific compliance issue. In certain instances these checks will be based on an item as reported on a recent return and thus will be made after a review of the most recently filed returns of the organization. It is intended that through these efforts, as well as by the other actions outlined in these guidelines, the Service can improve the quality of the reporting on a variety of forms, including Forms 990, 8871 and 8872.

The IRC 4958 team has submitted several recommendations for consistent application of this code section and its regulations. In addition to those listed in the compliance project area below, those that are approved will be implemented in FY 2003. To assist in monitoring activities in this area, EO Examinations will continue to use principal issue code 67, "Excess Benefit Transactions under IRC 4958" and disposal code 50, "Agreed Intermediate Sanction Payments" (where applicable). These must be recorded on Form 5599 (AIMS Closing Record) when this issue is involved.

EO Examination personnel will continue to utilize the Classification Settlement Program (CSP) to resolve Employee vs. Independent Contractor issues.

BUSINESS PERFORMANCE

Examination Program objectives and measures will be developed and reported on a national and area basis for FY 2003. The Director, EO Examinations and the Area Managers have objectives for Balanced Business Measures for each Area for FY 2003.

The Technical Time Reporting System, AIMS, RICS, CEMIS, TEQMS, narrative reports, specific program/project reports, special purpose visits, as well as other means of communication, will be used to monitor the accomplishment of FY 2003 Implementing Plan objectives and the applicable Balanced Business Measures.

Balanced Business Measures for FY 2003 are as follows:

PAC 7G	FY 2003 Targets
EO Examination Customer Satisfaction	
Percentage Satisfied	72%
Percentage Dissatisfied	8%
EO Examination Cases Closed	6,500
EO Examination Timeliness	212
EO Examination Quality	78%
EO TEP Direct Staff Days	9,045.3
EO TEP Taxpayers Closed	23
EO TEP Quality	Baseline

Managers and employees should be familiar with all released measuring techniques (such as TEQMS) and procedures affecting measures.

EXAMINATION PROGRAM

A. EO TEAM EXAMINATION PROGRAM—FY 2003

FY 2003 will be a year of transition from the current EO Coordinated Examination Program (CEP) into the Team Examination Program (TEP). The Team audit concept/design will be utilized on a wider array of taxpayers than have traditionally been the focus of TEP. Director, EO Examinations, will identify and examine those Team entities with the greatest audit potential. We will continue to expand our knowledge of the specific problems and needs of different market segments. Focus will be directed toward establishment of the following:

- ❑ Universe Population and Identification Procedures
- ❑ Development of Team Examination Knowledge Management Process
- ❑ Team Examination Selection Process
- ❑ Staffing Methodology
- ❑ Oversight of the Team Examination Program

The compliance strategy developed to address challenging issues in the healthcare industry, will continue in FY 2003 with the Large and Mid-Size Businesses Division (LMSB). Examination activities will be monitored by Project Code 111 for healthcare acquisitions and/or joint ventures that are in the approved EO Team universe. For those acquisitions and/or joint ventures that are not in the approved EO Team universe, Project Code 112 will be used to monitor examination activities under the “Casework” category.

Area Managers are responsible for coordinating FY 2003 Team Examination support needs (e.g. Computer Audit Specialists, EP Agents, Income Tax Agents, Engineers, etc.) with other functions to ensure that adequate support will be provided in a timely manner.

For returns of related taxable entities not under the jurisdiction of TE/GE, the examination should be performed by support personnel from W&I, SB/SE and/or LMSB Divisions. If these operating divisions determine (and the EO Team Manager agrees) that an examination is not

warranted for the Forms 1040/1120, a discrepancy adjustment can be made by TE/GE in accordance with applicable guidelines and procedures – appropriate project codes should be used with discrepancy adjustment returns. If the EO Team Manager does not agree and believes an examination is warranted, the Director, EO Examinations can request a transfer of jurisdiction to TE/GE to examine the Forms 1040/1120. An explanation should be provided in the Narrative Screen on CEMIS, or in Part III of Form 4451, if space is not available on the Narrative Screen, to document either action. In addition, as part of the ongoing coordination with LMSB, TE/GE should provide support for the LMSB Team examinations, when requested and as appropriate. Examination time for support of LMSB Team cases will be included in calculating the EO Team 30% time applied objective described below.

The use of the employment tax specialist in the planning stages is critical in allowing for appropriate and planned allocation of resources on a team audit case. An employment tax specialist will be involved in every new team audit start. The minimal role of the employment tax specialist involves the scope and planning of employment tax issues (generally 10 staff days). The initial planning process of the employment tax specialist begins with his or her development of information document requests that allow for access to taxpayer data regarding employment tax issues. Team members can work along side the employment tax specialist in developing multiple issues where the situation exists.

Multiple year or related returns (of the exempt organization) picked-up and established during the examination of the primary return should reflect the same project code as the primary return (Project Code 078), except for EO Team related entity returns. Project code 091 should be used for Team related entity returns.

In FY 2003, EO Examinations will provide assistance to Employee Plans Examinations as necessary in their examinations of Section 403(b) plans.

Team Examination Training

During FY 2003 EO Examinations intends to conduct an “Issues Conference” for agents that will focus on Team Examination technical issues. The conference will be held the first or second quarter of FY 2003.

The EO Team Member training course (Course #4246) for new case managers, Team coordinators and Team members will be held during the second or third quarter of FY 2003. The course is two weeks in length.

The Continuing Professional Education for Team Examination Managers course (Course #4280) will be held the first or third quarter. The course is five days in length (including travel). Each area manager should send their team managers and group managers examining Team cases.

The Tax Exempt Quality Measurement System (TEQMS) EO Team Examination Program course (Course #4320a) will be held during the fiscal year. The course is 3 days in length (including travel). This course will provide training for EO agents involved in the “quality”

review of closed EO Team examinations. This course will focus on the newly developed quality standards and scoring process for reviewing closed EO Team examinations.

The TEQMS EO Team Examination Program Awareness Training course (Course #4320b) will be held during the fiscal year as a train-the-trainer class. The training is scheduled for 2 days (including travel). Each Area will send two participants (one case manager and one team coordinator) to this train-the-trainer class. Those individuals attending this class will then provide the training in an informal setting to all other EO personnel (managers and agents) involved in the examination of EO Team cases. This training will only provide an awareness of the quality standards and scoring process, which will be used to measure the quality of an EO Team examination. The training for EO Team Personnel is approximately 4–6 hours in length.

Team Examination Planning and Business Performance

For FY 2003, time (staff days) planned for Team Examinations is limited to approximately 30% of total direct examination time (Line 127 on Form 5440). Examination time for “limited scope examinations” of Team Examination entities will be included in the 30% calculation. In addition, examination time for “Medical/Dental FICA Claims-TEP” under Project Code 007 will be included in the 30% calculation. Examination time planned for Project Code 068 (TEP Claims) will not be included in computing the 30% objective.

Time applied to conducting general research for “Team Examinations” in FY 2003 (research not related to an open examination of a specific taxpayer(s)) should be reported under Activity Code 186 (Other Research) and Project Code 220. General Research time applied to “Medical/Dental FICA Claims-Team Examinations” should be charged to Activity Code 186 (Other Research) and Project Code 217. Research related to open Team examinations and Medical/Dental FICA Claims should be charged to the respective case activity and project codes. This General Research time will be manually calculated for inclusion in the 30% objective.

The process of validating the criteria that will be used to identify those entities for the approved EO Team universe will be completed during the first quarter. Any time spent to identify the Team universe under current procedures should be charged to Activity Code 188 (TEP/ISP Program Planning and Business Performance) and Project Code 280.

For FY 2003, the new starts will be directed to ensure a balance of the Team Examination Program by market segment. Continued efforts will be directed towards development of a centralized method for workload selection to identify and promote consistency in balance measures activities. We will explore efforts to automate return scoring and screening, and to develop improved systems for issue identification to result in effective application of resources.

As an interim measure, requests to open a Team Examination audit not previously planned will be forwarded to the Project Manager. The Project Manager will consider the impact starting the case would have on long-term plans and will make a recommendation to the Manager, Examinations Programs and Review (EPR), as to whether the examination should be initiated. All decisions will be documented.

The following EO Team Project Codes will be used:

<u>Project Code</u>	<u>Description</u>
007	Medical/Dental FICA Claims – TEP
012	EO support time and units for all other LMSB Team (formerly known as CEP) examinations
045	EP support time and units for EO TEP examinations
068	Claim for Refund case for the TEP entity (where no coordinated examination conducted)
069	Limited scope examination for a TEP entity (when no team examination conducted)
078	For all returns of the EO TEP Primary entity (Forms 990, 990-PF, 990-T, 990-C and 1120 (for Farmers' Coops that are still in-process), 1120-POL, 720, 940,941, etc.),
091	For all returns of the related entities under TEGE jurisdiction
097	EO support time and units for LMSB's VEBA project
111	Healthcare Joint Venture Referrals-Team (Healthcare acquisitions and/or joint ventures which are in the approved EO TEP universe.
116	Health Maintenance Organization (HMO)

Project Codes 012, 078, 091, 097, 111 and 116 take priority over all other project codes.

B. GAMING (GAMBLING) ACTIVITIES

For FY 2003, time has been planned (staff days) for Gaming (Line 93 on Form 5440). Area Gaming Coordinators have been identified for each of the Areas. In addition to the activities described below, each of the Coordinators, in conjunction with their respective Area Manager, will work with the Group Managers and the state gaming authorities in their Areas to identify and implement projects to focus on gaming issues. Issues to be addressed should include the requirements for exemption, employment tax, excise tax and/or other filing requirements. The projects should be designed to focus on those organizations most likely to be non-compliant.

As new initiatives are developed they should be coordinated through Examinations Planning and Programs (EPP) for approval and assistance in implementation.

Area Gaming Coordinators should maintain current relationships and continue establishing new relationships with all state/local gaming regulatory agencies within their area. In addition, education and outreach initiatives as appropriate should continue to be considered to encourage voluntary compliance by organizations engaging in gaming activities. All Education and Outreach initiatives should be coordinated with the Director, EO Customer Education and Outreach.

Team examination techniques may be used where there would be a material benefit from a team examination approach in concurrently examining the exempt organization, the for-profit gaming operator, and peripheral entities such as gaming suppliers and security firms.

Project Codes should be assigned to new local gaming projects. Project Code 086, Gaming (Gambling) Activities, is only used for general cases with gaming issues.

Activity Codes 197 and 198 should be used for examination time expended on Form 11-C (Occupational Tax and Registration Return on Wagering) and Form 730 (Monthly Tax on Wagering), respectively. Forms 11-C and Forms 730 filed by exempt organizations should be established on AIMS using the AIMS Source Code which best describes the reason for the examination. However, a flow through indicator of "1" is required. Flow through indicator "1" is required on all discrepancy adjustments.

C. REFERRALS, CASEWORK AND TRAINING CASES

Referrals will continue to be designated as priority work. EO Examination Planning & Programs (EPP) will prioritize referral categories/issues. Disaster Relief referrals will be the highest priority referral. Referrals in the area of IRC 527 filings will be the next highest priority among referrals to be processed in FY 2003. Referrals relating to fundraising issues including the inaccurate reporting of fundraising costs on Form 990 are the third priority. Other priorities will be established as necessary. All referrals and/or information items received by EO Examinations must be processed through EPR Classification prior to assignment to the field groups. As part of the IRM revision process, the most current procedures regarding referral processing are being included in the new IRM.

Time will be planned to conduct casework. Casework arises from known noncompliance issues related to specific taxpayers, or where Service action is otherwise necessary. Examples include referrals, claims, emerging issues, training cases, and general case examinations. In FY 2003 resources will be devoted to conducting Non-Compliance Indicator Return examinations as described in the Compliance/Education Projects section at the end of this document.

EO Examinations will generally conduct limited scope examinations for entities that have filed claims for refund of FICA taxes paid on behalf of Medical/Dental Residents and 403(b) Plan Participants. Examiners will charge their time to the appropriate examination activity code and Project Code 117 (Medical/Dental FICA) for non-TEP entities, Project Code 007 (Medical/Dental FICA-TEP) for TEP entities and Project Code 122 (403(b) Claims).

When appropriate, EO Examinations will continue to devote resources to the following industry specialization program (ISP) casework and to provide coordinated support to LMSB:

- (a) Non-EO large case ISP casework includes examination of Private Colleges or Universities (Project Code 052), Hospitals (Project Code 075), Public Colleges or Universities (Project Code 080), and Other Healthcare organizations such as nursing homes, skilled nursing care facilities, home healthcare organizations, clinics, etc. (Project Code 115).
- (b) Partnership returns (Forms 1065) which identify an exempt organization(s) and/or healthcare entity(s) as a partner(s) may be examined simultaneously with the EO return as joint healthcare examinations between TE/GE and LMSB.

EO examiners should be alert to EOs holding an interest in a charitable family limited partnership and coordinate the referral with LMSB or SBSE, as appropriate. Project Code 112 should be used for healthcare acquisitions and/or joint ventures, which are not in the approved EO large case universe and Project Code 113 for partnership returns, Forms 1065, which identify an exempt organization as a partner.

D. VOLUNTARY COMPLIANCE ON ALIEN WITHHOLDING PROGRAM (VCAP)

VCAP was a voluntary compliance program for colleges, universities and related organizations that may not have been in compliance with the withholding tax regulations on payments to non-resident aliens. VCAP became effective on February 26, 2001 and ended on February 28, 2002. Only 12 VCAP submissions were received under the program. As a result, an action plan was developed to address the number of colleges/universities and related organizations that still may not be in compliance with the excise and withholding tax regulations on payments (such as wages, grants, scholarships, and other income) to non-resident aliens.

During FY 2003 enforcement actions will include compliance checks and limited scope examinations, focusing on the non-resident issue, as well as other applicable employment tax issues. The enforcement actions will provide a means to determine additional potentially non-compliant colleges and universities. One or more samples of organizations will be selected based on criteria that make it more likely that the non-resident issue exists with respect to the organization. The organizations will be contacted to determine their ongoing compliance with the rules.

Time applied for performing VCAP administrative duties should be charged to Activity Code 187 and Project Code 658.

Examiners working cases with the non-resident alien issue that were not submitted under VCAP should charge examination case time to the appropriate examination Activity Code and Project Code 055 unless a higher priority project code is applicable.

E. COMPLIANCE PROGRAM

The EO Compliance Program is part of the IRS's overall Strategic Compliance Approach. The EO Compliance Program is a systematic method to understand and improve compliance through its constituent compliance activities: direct case examinations, non-examination compliance/education activities and general compliance research activities. Direct case examinations and non-examination compliance activities are included in the following categories:

- a) Market Segment Studies**
- b) Emerging Issues and Focus Areas (FY 2003)**
- c) Continuing Market Segment Studies and Compliance/ Education Projects**

The objective of the EO Compliance Program is to continually build knowledge through the research of all available internal and external data. Information will also be gathered through research sampling via examinations of various market segments within the exempt organizations universe. EO Compliance Program activities will be coordinated with the office of the Director, Research and Analysis.

Market Segment Approach

The Market Segment approach is based on the recognition that the EO community is comprised of widely diverse segments of organizations with widely diverse needs. For example, small volunteer organizations have very different issues and needs than larger non-profit hospital systems. Market segments have been preliminarily identified within EO, and available information collated, including compliance information for each segment. Initially 35 market segments were identified, and comments solicited from the public through the TEGE website. Based on feedback from the public, the number of market segments was increased to 42. The number and make-up of market segments will continue to be refined over time. The Service will conduct a review of each segment. To the extent the IRS does not have sufficient information upon which to assess the characteristics of a particular segment, market segment studies may be necessary. These studies may or may not require examinations.

The studies are comprised of research samples designed to profile unique segments of the EO universe and are essential to the risk assessment process. Profiling is an activity designed to obtain and collect data on market segments. The profile of a market segment contains information on its:

- (a) characteristics;
- (b) geographical location;
- (c) compliance levels with
 - technical requirements under the Internal Revenue Code and the Regulations and
 - procedural requirements for completeness and accuracy of the return filing; and
- (d) examination coverage.

Each study will measure compliance with all requirements applicable to that segment. Long-range goals call for the ratable completion of studies on most or all identified EO market segments. Non-compliance identified through the market segment studies will then be assessed for the level of associated risk. Compliance improvement projects and educational activities will be designed to address areas of non-compliance identified through the risk assessment process.

The results of completed samples and profiling activities will be discussed in formulating the EO Compliance Program Plan. The plan will be submitted to the Director, Exempt Organizations for review and approval prior to implementation.

MARKET SEGMENT STUDIES

Five market segment studies using statistically valid sampling techniques will start in FY 2003. Two non-statistical studies will also begin this fiscal year. Coordinating committees, assisted by EPP staff, will develop the design and implementation of these market segment studies. As appropriate, each study will be carried out in one or more phases (e.g., examinations of filed Form 990 returns, and examinations of small organizations that are not required to file Form 990). Examinations generally will be based on a nation-wide sample of returns for each phase in the following market segments:

Colleges and Universities – A non-examination based research study will begin April 2003. This study will gather compliance information from prior years' examination programs, other internal sources, and external sources, and will represent a preliminary step in profiling the college and university market segment.

Hospitals – A non-examination based research study will begin April 2003. This study will gather compliance information from prior years' examination programs, other internal sources, and external sources, and will represent a preliminary step in profiling the hospital market segment.

Fraternal Organizations – Project scheduled to begin May 2003. Data will be captured on issues relating to fraternal organizations exempt under IRC 501(c)(8) and 501(c)(10): filing requirements; employment tax; unrelated business income tax; gaming and other fundraising; non-exempt activities; member-related issues; inurement; public disclosure; and insurance. In addition, general demographic data will be captured for use in building the fraternal organization profile. A previous study of this market segment was limited to the issue of insurance provided by the organization. This study is intended to augment the previous study and to complete the profile of the fraternal organizations market segment.

IRC 509(a)(3) Supporting Organizations – Project scheduled to begin April 2003. First, a determination will be made as to whether this is one or more segments. Then, data will be captured on issues relating to supporting organizations: foundation status; filing requirements; employment tax; unrelated business income tax; gaming and other fundraising; non-exempt activities; lobbying; inurement/private benefit; intermediate

sanctions; organizational test; political activity; and public disclosure. In addition, general demographic data will be captured for use in building the supporting organization profile. The coordinating committee for this study will ensure a key focus of the study is the manner in which organizations claim to meet the “in-connection-with” rules.

Arts and Humanities - Project scheduled to begin July 2003. Data will be captured on issues relating to the Arts and Humanities Market Segment: organizational test and foundation status; filing requirements; employment tax; unrelated business income tax; gaming and other fundraising; non-exempt activities; lobbying and political activity; inurement/private benefit; intermediate sanctions; joint ventures; scholarships; and public disclosure. In addition, general demographic data will be captured for use in building the Arts and Humanities profile.

Private Foundations - Project scheduled to begin August 2003. Data will be captured on issues relating to private foundations. Prior to initiating the project, EO will determine whether the segment study will require more than one sample (e.g., based on asset size or other characteristics). In this regard, it is intended that discussions be held with various outside stakeholders. Issues to be reviewed as part of the study include the following: organizational test; filing requirements; employment tax; unrelated business income tax; gaming and other fundraising; non-exempt activities; minimum distribution requirements; expenditure responsibility; program related investments; other Chapter 42 excise taxes; foundation status; lobbying and political activity; inurement/private benefit; intermediate sanctions; public disclosure; joint ventures; and scholarships. In addition, general demographic data will be captured for use in building the private foundations profile. This project is being undertaken in light of what appears to be significant growth in this area and to continue the Service’s review of grant-making organizations. As such, it will be coordinated with other ongoing studies and compliance projects in the areas of community foundations and donor advised funds.

Elder Housing – Project scheduled to begin August 2003. Data will be captured on issues relating to elder housing: organizational test and foundation status; filing requirements; employment tax; unrelated business income tax; gaming and other fundraising; non-exempt activities; inurement/private benefit; intermediate sanctions; lobbying; political activity; joint ventures; and public disclosure. In addition, general demographic data will be captured for use in building the elder housing profile.

Emerging Issues and Focus Areas

The Examination Program for FY 2003 will focus primarily on the areas outlined in the “Examination” and “Research Program” sections below.

Emerging issues and trends identified in the Examination Program will be coordinated with the Director, EO Rulings & Agreements, the Director, EO Customer Education & Outreach, and the Director, TE/GE Research & Analysis. This coordination will produce the development of outreach efforts, internal training modules and compliance initiatives to address the emerging issues and trends.

EO Examinations will continue supporting anti-terrorist efforts by the U.S. Government. This will be accomplished through continued participation in task force(s) as required to combat the funding of terrorism through U.S. or foreign charities. This work will include the provision of specific support to functions within or outside of the Service on specific cases.

Examinations will continue for entities that have filed claims for refund of FICA taxes paid on behalf of Medical/Dental Residents. Coordination between Counsel and EO Examinations is an essential factor in the examination of these cases. Examiners will charge their time to the appropriate examination activity code and Project Codes 117 (Medical/Dental FICA-Non-TEP) and 007 (Medical/Dental FICA-TEP).

During FY 2003, EO Examinations will **continue to** encourage future voluntary compliance with filing and recordkeeping requirements by continuing to place emphasis on the issuance of Inadequate Recordkeeping Reports and the imposition of penalties for incomplete returns (i.e., omitted or inaccurate information on the compensation of officers, etc.). To assist in monitoring EO cases where Inadequate Recordkeeping Reports are issued and where penalties are imposed for incomplete returns, principal issue codes #12 (Inadequate Records), #13 (Incomplete Returns), and #28 (Public Information Not Reported 501(c)(3)) must be recorded on Form 5599 (AIMS Closing Record) when these issues are involved.

Agents who examine Forms 990 of public charities will **continue to** check to see whether fundraising income and expenses are being properly reported. Media reports suggest that a significant number of well-established organizations are netting fund-raising expenses against fundraising income. Agents should check amounts reported on Form 990 against the organization's audited financial statements and/or other books and records to determine whether the fundraising income and expenses are properly reported. Penalties under IRC 6652(c) should be imposed, where appropriate. As discussed below, a team was formed during FY 2002 whose recommendations will be tested during FY 2003.

During FY 2002, EO Examinations began developing a strategy to address compliance issues within donation programs such as Used Car programs. This team will continue to work on developing proposals to address technical issues, education and procedures during FY 2003. They will continue to coordinate strategies with the fundraising team.

Continued emphasis should be placed on the maximum collection of agreed deficiencies.

As in FY 2002, teams will be commissioned to study areas of concern. In keeping with the overall compliance strategy, these teams will address concerns or known areas of non-compliance and recommend strategies to deal with them. The following projects will be implemented in FY 2003:

Consumer Credit Services – Examinations will be initiated on a number of referrals that have been received on consumer credit organizations. It is suspected that some of these organizations are acting in a commercial for-profit manner or as a part of a tax shelter promotion. The results of these examinations will be monitored to determine if a larger project on this type of organization should be initiated.

Group Rulings – EO Examinations will work with Rulings and Agreements to develop a strategy to improve compliance in a number of areas concerning group rulings, primarily filing accuracy for parent organizations, and exemption application filing and Form 990 filing for subordinate organizations that are no longer covered by a group ruling. Compliance checks, educational programs and research projects will be considered in developing the strategy.

Form 990 Revision –There are multiple groups currently working on various aspects of Form 990 revision: electronic filing, classification for examination, state reporting and disclosure requirements, statutory requirements, filer education, etc. A committee will be formed to integrate information from these groups that will enable us to redesign the Form 990 so that it will be both: (1) a tool for EO Examination to identify compliance issues, and (2) an informative document for an entity's contributors and other members of the general public. It is not anticipated that this project will be completed in FY 2003. To the extent possible, necessary changes that can be made on a timely basis will be included in the Form 990 electronic filing initiative.

Housing and Urban Development (HUD) – The Department of Housing and Urban Development (HUD) supplied us with an extensive list of exempt organizations enrolled in certain HUD programs in 2000. HUD has found possible private benefit or lack of exempt activity on the organizations they have audited. They have identified promoters advocating the use of exempt organizations to collect HUD benefits in a questionable manner. A coordinating committee will be formed to develop a strategy, to include examinations, to address the use of the information received from HUD. It is likely that the results of the committee's work will also assist in the formation of a more comprehensive study in the low-income housing area.

Disaster Relief Organizations – As the Service has indicated and in light of the large amount of funds that flowed into these organizations after the tragedy of 9/11, we will continue monitoring those organizations that registered or operated as disaster relief organizations in the wake of the terrorist attacks of September 11, 2001. Our area of focus will be to ensure that distributions were made in compliance with the Victims of Terrorism Tax Relief Act of 2001, that there was no private benefit or fraud, and that the organizations are fulfilling their exempt purpose. The monitoring effort will include the review of Forms 990 for these organizations and both field and OCEP examinations.

Compliance with rules on foreign grants and distributions – A project will be initiated to determine the extent and quality of the controls employed by section 501(c)(3) organizations when providing relief and other grants overseas. The study will focus on the existence and effectiveness of controls put in place to monitor the distribution of overseas grants and other assistance. The study will likely not include private foundations, as controls in this area will be adequately reviewed as part of the private foundation market segment study.

CONTINUING MARKET SEGMENT STUDIES AND COMPLIANCE/EDUCATION PROJECTS

The following studies and projects were started in FY 2002 and will continue into or through FY2003:

Market Segment Studies:

- 1) Social Clubs
- 2) Business Leagues
- 3) Labor Organizations
- 4) Social Services
- 5) Religious Organizations
- 6) Community Foundations

Compliance/Education Projects:

- 1) UBI (Debt-Financed Property) – This project that was initiated in FY 2002 identified significant non-compliance with Forms 990 showing rental income and a mortgage payable. During FY 2003 we will continue to select returns using condition codes and assigning them to the field as orders for returns are received.
- 2) Private School Schedule A Filers - During recent fiscal years, a Non-Certification listing has been generated from the Business Master File (BMF) that contained information related to those private schools that are not required to file Forms 990, yet may be required to, but have not filed Form 5578, “Annual Certification of Racial Nondiscrimination for a Private School Exempt From Federal Income Tax.” The listing also contains those organizations that have filed Form 5578. A Form 5578 is required to be filed by those exempt organizations that operate, supervise, or control a private school or schools. The criterion for an entity to be included on this listing depends upon the activity codes entered on the original Form 1023 determination application submitted by the organization. Certain activity codes indicate that the organization is required to file Form 5578.

During the third quarter FY 2002, a project team was formed to determine a method of identifying the reasons that EO entities were not filing the Certification. Once the reasons are determined, the team will formulate a strategy to effectively communicate the Certification filing responsibilities to these entities and obtain compliance. During the latter part of FY 2002 and into early FY 2003, an analysis is being conducted from a sample extracted from the Private School Listing. The analysis involves inspection of the microfiche on the sample to determine the proportion of entities that recorded correct activity codes. The team will concentrate on formulating a strategy on those that were correct, because they should have been filing a Certification. If there exists a significant portion of sampled entities that did not record the correct activity codes, the team will also determine a strategy for addressing this deficiency.

Based on the results of the initial phase, during the first quarter FY 2003 the team will complete formulating strategies to implement solutions to the findings above. The team anticipates the strategy and solutions will involve contact/educational outreach with the EO Entities. As part of the contact (via correspondence), those organizations in the sample whose Form 1023 contained correct activity codes, but who did not file Form 5578, will be asked for the reason(s) they did not file. After responses are received and analyzed, strategies are projected to involve educational and/or compliance initiatives to improve compliance in this area.

Coordinating committees were formed in FY 2002 to develop strategies to address additional areas of non-compliance. These committees will continue activities into FY 2003. As strategies are developed by the committees, aspects resulting in educational activities, compliance projects, research projects or other compliance or enforcement activity will be implemented as part of the planned compliance efforts for FY2003. The committees dealing with the following issues are expected to complete development of strategies during the fourth quarter of FY 2002, for implementation in FY 2003:

- 1) Donor-advised Funds – The committee is developing a process to study the donor-advised area. For inclusion in the donor-advised fund study the committee is considering so-called National donor-advised funds, other organizations having donor advised mechanisms as their primary activity or purpose, and organizations utilizing donor advised giving mechanisms as part of their fundraising apparatus, but who operate the mechanism primarily as an additional method to get funding for the organization itself. Work is continuing on how to segment the entire grant-making sector. It is anticipated that examinations of the donor advised fund segments will commence in 2003. While this is a separate study, the work in this area will be coordinated with the work relating to other grant making area including, community foundations, private foundations and supporting organizations.
- 2) Inurement and Intermediate Sanctions – This committee has made recommendations for consistent implementation of IRC 4958 and its regulations related to excessive benefit transactions. Approved recommendations will be implemented in both EO and R & A. Among the projects in this area to be implemented in FY 03 is an examination project where organizations will be contacted and asked to explain the method by which compensation for certain individuals has been set. Organizations likely to be contacted will include at least one or more sample of organizations that have very highly compensated employees but not commensurate revenues or assets. Other categories of organizations for sampling (including those where contracts with disqualified persons exist) will also be identified. After consideration of the results of these samples, additional refinement will occur and identifying criteria for examination will be established. In addition, contacts will be made with those organizations that may have disclosed excess benefit transactions on their Forms 990.
- 3) IRC 501(c)(15) – During FY 2003, this committee will implement a plan that is designed to enhance compliance in these non-life insurance cases through activities

in the areas of guidance, determinations and examinations. The determination program enhancements will include increased training, published guidance and focused inquiry letters. The examination program plan will include examinations of a small number of returns manually selected for indications of one of the issue patterns compiled by this committee. These audits will enable us to ascertain how identified issues play out in operation and to understand how they can be identified on the returns. They will enable us to determine whether there is abuse of 501(c)(15) organizations and what additional examination or other compliance projects should be undertaken.

- 4) Fundraising Activities – This committee is working on strategies to deal with this issue and expects to test one or more samples of cases in FY 2003. One project will include contacting organizations that have taken certain contribution and expense positions on their returns (e.g. those with high contributions and relatively low fundraising expenses). Incomplete or accuracy-related penalties will be imposed as indicated.
- 5) Donated Property – This committee is developing proposals to address technical issues, education, exam issues and procedures. They will also coordinate strategies with the Fundraising Committee. In 2003, a project will be developed to utilize one or more state licensing databases in order to study the operations of organizations in this area.
- 6) Form 990 Delinquent Filers and Non-filers – This committee is charged with the task of designing a cohesive strategy for improving compliance with Form 990 filing requirements. They are analyzing data from the current delinquency notice-processing program at the Ogden Campus. They are also charged with analyzing and recommending improvements to the delinquent filer penalty program. As the team's recommendations are approved, they will be implemented in FY 2003. As part of the strategy to address non-filers, an examination effort will also be implemented. A sample of moderate-to-large sized organizations will be selected for examination. The statistical sample will be taken from a list of those organizations that have a Form 990 filing requirement (as reflected on the Business Master File) but have not filed returns. These organizations will be selected from the entire EO universe, without regard to market segment designation. The examinations will be initiated by correspondence as part of the EO OCEP program, but may be converted to field examination by the group manager as appropriate.
- 7) IRC 527 Project – EO has formed a committee to address non-compliance in this area. A strategic plan relating to compliance in the 527 reporting area is under development and will be implemented by the second quarter of FY03. In FY02, the committee developed an initiative to address inconsistencies between Form 8871 and Form 8872 filings. In June 2002, in conjunction with the issuance of Notice 2002-34, the task group mailed over 7,000 letters to potential non-compliant 527 organizations. Analysis of the responses reflect multiple EINs, no filing requirements, and terminations to be major factors creating the appearance of non-compliance of otherwise compliant organizations. The task force is coordinating with

the Service Center to ensure taxpayer entity records are corrected. Where it appears that non-compliance continues with respect to those contacted, examination will be initiated during FY03.

Other projects to be commenced in FY03 include an examination project designed to validate whether, and the extent of, substantive compliance by 527 organizations. This project will include a review of a sample of forms 8871 and 8872 to determine on a line-by-line basis whether certain information has been accurately reported.

A strategy to identify and locate 527 organizations that have failed to register with the Service will also be developed. Activities in the section 527 area of the examination program are particularly subject to modification because of continuing legislative and judicial action.

Non-Compliance Indicated on Returns

In addition to the compliance initiatives outlined above and any special projects or emerging issues that arise during the year, EO Examinations will examine Non-Compliance Indicator Return cases. The cases selected for examination under these projects will meet certain condition codes that are developed by Examination Planning & Programs and Classification. The condition codes that will be developed will identify returns that have potential for non-compliance based on information provided by the taxpayer. The scope of Non-Compliance Indicator returns will generally be limited to the potential compliance issue identified with the condition code, the operational/organizational test and large, unusual or questionable items on the return.

Non-Compliance Indicator Return projects do not require the completion of a compliance checklist. Instead, data from EO RICS will be used to analyze examination results. Project Code 251 will be utilized for returns selected for examination in FY 2003 under a Non-Compliance Indicator Return projects. Individual condition codes will be assigned to each condition code criteria that are developed and will be used in the monitoring of individual project results. Once it is determined that significant non-compliance can be identified using a certain condition code, that information will be relayed to the RICS team to have the condition code criteria added to EO RICS for future selections. RICS can also be programmed to list the condition code, if the criteria are met, on the classification sheet for any return selected for examination from EO RICS that meets individual condition code criteria. Printing the condition code information would alert the examining agent that attention should be given to compliance issues relating to the condition code even if the return was selected for another compliance project or Non-Compliance Indicator Return project.